SIA

Foreign Activity

An Analysis of Foreign Participation in the U.S. Securities Markets
Produced by the SIA Research Department

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Foreign Activity in U.S. Securities

"Highlights"

1. Foreign activity in U.S. equities during 88-Q3 matched both Q1's and Q2's $96 billion totals. However, Q2's turnaround to a positive net inflow accelerated further in Q3, with $814 billion of net purchases exceeding Q2's infusion by one-third.

2. The Asian (Japanese) share of foreign gross activity in U.S. equities grew from under 15% in 1984 to 40% last year (Jan. - Sept.). For the first time, this matched European gross activity, which was as high as 56% of activity in 1984. Meanwhile, the quarterly trend during 1988 was identical, with Asia's share increasing and Europe's decreasing each quarter, until Asia reached a 42% share in Q3 and Europe a smaller 37%!

3. Foreign activity in U.S. equities equaled 8% of the value of NYSE trading during 1982-85 and then, fueled from Japan, matched 10% of total NYSE activity in 1986 and 13% by 1987! Further, this growth is all the more impressive since the dollar value of all NYSE trading doubled from 1985 to 1987!

4. Total foreign activity in U.S. Treasuries rose from $784 billion in 88-Q2 to $820 billion in Q3, but net purchases were slashed in half to $12.2 billion. A drastic reduction in Japanese purchases in Q3 and a $5 billion net selloff from central banks led to the decline.

5. Foreign gross activity in U.S. corporate bonds dwindled for the second straight year, to only $85 billion in 1988 (Jan.- Sept., annualized). The $20 billion of activity in corporates in Q1 and Q2 grew to $24 billion in Q3 while net purchases held above the $6 billion level for the second straight quarter.

6. U.S. investors' purchases and sales of foreign equities is running at a $143 billion annual pace. That's 24% off 1987's record level of $189 billion, but it will be the second highest annual showing ever if the pace is maintained throughout 1988. However, net acquisitions, purchases less sales, by U.S. investor's is running at one of the lowest levels of the 1980s.

A Yen For U.S. Equities

Although foreign gross activity in U.S. equities in 88-Q3 remained flat, matching the two preceding quarters' $96 billion of gross purchases and sales, Q2's turnaround to a positive capital net flow into U.S. equities accelerated further in Q3, with $814 billion of net purchases bettering by one-third Q2's infusion of $588 billion (Exhibit 1).

After the major selloff of U.S. equities by foreigners (and everyone else, too) in 87-Q4, foreigners nibbled a bit in January, buying a nominal $32 billion net, and then resumed dumping about $400 billion net in U.S. equities during each of the next two months. April saw foreigners snap up over $1.3 billion in U.S. equities, the highest showing in six months, but only to see most of these net purchases sold back into the market in May.

EXHIBIT 1

GROSS TRANSACTIONS IN AND NET PURCHASES OF U.S. EQUITIES
($ Millions)

	Second Quarter 1988		Third Quarter 1988	
	Gross Activity	Net Purchases	Gross Activity	Net Purchases
Europe	$38,383	$ (637)	$35,915	$ (103)
Belgium-Luxembourg	2,006	151	1,567	(15)
France	2,896	(33)	2,732	(92)
Germany	2,831	2	2,582	(8)
Netherlands	1,388	(244)	1,179	(42)
Switzerland	8,984	(468)	7,939	(632)
United Kingdom	18,097	(137)	17,678	732
Canada	8,733	171	8,136	264
Latin America & Caribbean	9,634	32	9,319	527
Bermuda	1,795	31	1,533	33
Netherlands Antilles	3,244	73	2,925	37
Asia	37,807	1,063	40,742	(94)
Hong Kong	1,796	(40)	1,624	22
Japan	31,320	1,544	34,485	217
"Other Asia"*	3,340	(463)	3,709	(256)
Total All Countries	**$96,758**	**$588**	**$96,092**	**$814**

Source: U.S. Treasury

* Countries included are: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates.

During the summer, June through August, while U.S. investors were avoiding equities, foreigners were bottom fishing and quietly (obviously, since the markets didn't reflect any bullish sentiment) accumulated nearly $2 billion net in equities.

As 88-Q3 closed, foreign buying/selling patterns re-converged with U.S. investor sentiment -- foreign investors, like their U.S. counterparts, became net sellers during September's anemic market. Exacerbating September's poor showing was an almost complete shunning by Japanese institutions of dividend recapture programs, turning in their lowest dividend roll activity of any month so far in 1988. And, as will be discussed shortly, the sentiments of this group of investors is tantamount to what color the total offshore capital inflow/outflow picture will be painted!

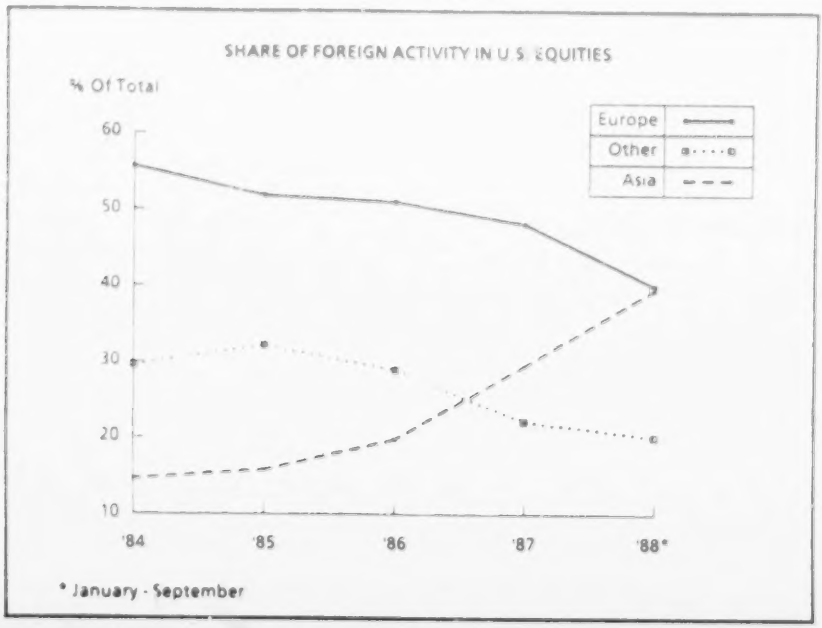
Further, since dividend rollovers rolled over and played dead for the remainder of the year, their absence portends a negative direction for foreign (read Japanese) investment in Q4.

Just how large a factor these Japanese investment patterns are becoming to capital inflows to the U.S. cannot be understated. Taking a long-term look at foreign buying patterns highlights this emerging trend.

Rising Sun's Rising Share

The explosive growth of Japanese interest in U.S. equities, both on a gross and net basis, drove the Asian share of all foreign activity from less than 15% in 1984 to 20% by 1986, 30% by 1987, and 40% last year (based on nine month results). Meanwhile, Europe's impact on the value of all foreign equity transactions fell from 56% to 40% over the same time frame. All other foreign investors' share fell from 30% to 20% over the same period (Exhibit 2).

EXHIBIT 2



This trend was reflected perfectly during 1988: Europeans accounted for 43.4% of all foreign equity transactions during Q1; 39.7% in Q2, and 37.4% in Q3. Asian investors accounted for 37.3% of the value of foreign transaction in Q1, to a virtual tie with Europeans at 37.1% in Q2 and, for the first time ever, Asia, principally Japan, exceeded Europe in activity with a record $41 billion, or 42.4% share of activity in Q3.

Meanwhile, Canadian influence, which exceeded all of Asia at the beginning of the Eighties with a 16% share of foreign equity investment, has continuously eroded and accounted for under 9% of all foreign activity in U.S. equities last year (through September).

The explosive growth of Japanese investment in the U.S., both on an aggregate basis as well as relative to other foreign investors, is all the more impressive when looking at growth in home equity markets. While Japan was rapidly expanding its activity in U.S. equities, Japanese investors were also pouring their growing money base into Japanese stocks at unprecedented rates back home. Of all equity markets, Japan grew the fastest and became the largest with a capitalization of $3 trillion at the end of 1987, above the U.S.'s second place (albeit crash-impacted) $2.2 trillion. Japan's huge, and growing, trade surplus and high saving level, simply needs many roosts beyond Tokyo's own perch.

From 1975 through 1987, the capitalization of Japan's home equities market grew 21-fold! That compares to an eight-fold increase in the U.K and a three-fold increase in the U.S. Even over a shorter span, from 1980 through 1987, Japan's equity market capitalization grew eight-fold, compared to only a doubling in the U.S. and a tripling in the U.K.

The impact Japanese investment has had on all foreign investment in the U.S. can dramatically be shown by comparing foreign gross activity to total activity on the NYSE. Past surveys have shown that foreign investment in U.S. equities is principally in high capitalization, NYSE listed stocks.

If we assume, for illustrative purposes, that all foreign activity in U.S. equities were in NYSE listed stocks, then foreign investment accounted for 8% of the value of NYSE trading during 1982-85, shot up to 10% of total activity in 1986 and to 13% by 1987! Further, this growth is all the more impressive given the dollar value of all NYSE trading doubled from 1985 to 1987!

At Your (Debt) Service!

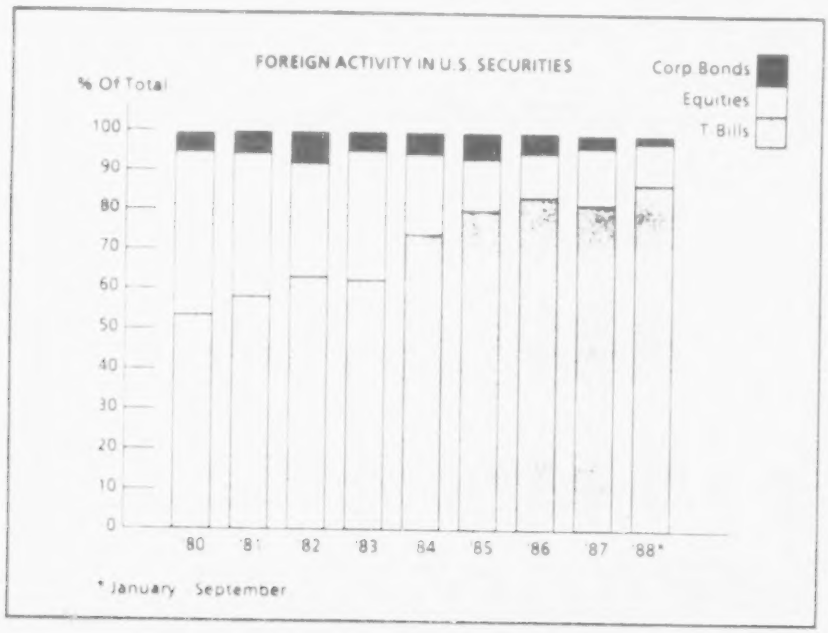
As impressive as the explosive growth in foreign activity in U.S. equities is, it pales in comparison to the insatiable appetite foreigners display for U.S. Treasuries.

In fact, gross transactions in Treasuries by foreigners increased at an average annual rate of 58% during the Eighties, double the 28% average annual growth rate in equities. Further, activity in Treasuries increased every year, going from under $100 billion in 1980 to over $3 trillion last year (based on nine month results).

Granted, central bank intervention for currency stabilizing efforts are a major factor in Treasury totals, but private institutions still account for much of the growth in the foreign appetite for U.S. Treasuries.

At the onset of the Eighties, just over half of the total activity of foreigners is U.S. securities was in Treasuries (42% of their activity was in equities and 5% in U.S. corporate bonds). An increasing overseas demand for Treasuries gradually pushed this share up to over 87% by 1988 (January through September), while equities fell to under 11% and corporate bonds to just over 2% (Exhibit 3).

EXHIBIT 3



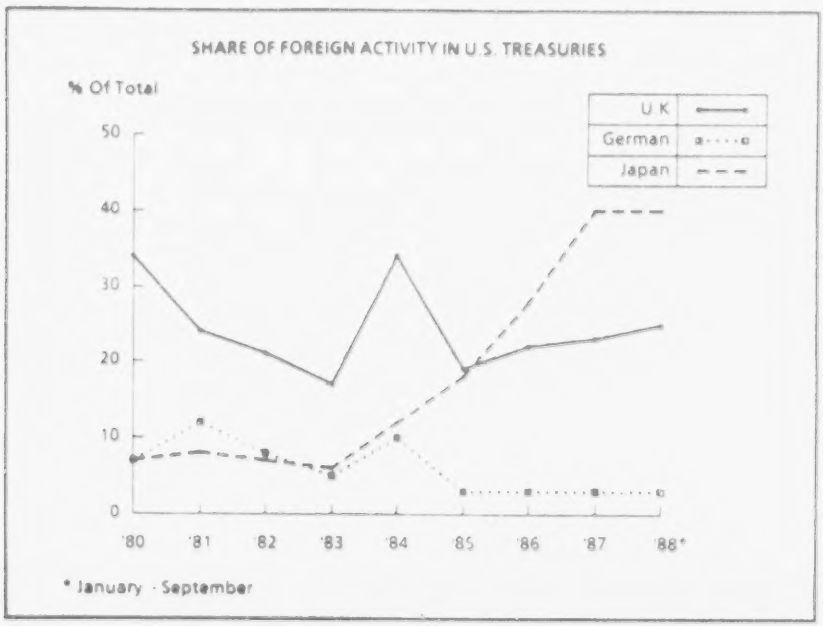
Despite the rapidly accelerating gross activity in Treasuries by foreigners in recent years, with activity about doubling in each of the years 1984 through 1986, net purchases of these bonds remained flat until 1988. From 1984 through 1987, annual net purchases of Treasuries ranged from $21-$29 billion. However, 1987's $26 billion in net purchases was entirely attributable to $31 billion of net purchases by central banks shoring up the dollar.

Sentimental Journey -- Back to Treasuries

By the first quarter of last year, foreign investor sentiment swung bullish as they purchased a net of $27 billion in Treasuries, even though about two-thirds was still derived from monetary intervention. Still, this $27 billion inflow exceeded all of 1986, and nearly matched the record net buys for a full year -- 1985's record $29 billion! Japanese enthusiasm for Treasuries fully accounted for half of all these net purchases and was a major turnaround since Japanese investors only bought, net, $1.3 billion in the preceding 12 months and during the previous year, 1986, bought a mere $3.8 billion.

On a gross activity level, Japan has become the dominant force in Treasuries beginning in 1985 (Exhibit 4), surpassing the historically dominant U.K. as the force in U.S. governments. As recently as 1984, U.K. investors accounted for one-third of the foreign market for Treasuries but fell to just 25% last year (January - September). In fact, just this month, one U.K. firm, which only recently received U.S. government dealer status from the Fed, announced its intentions to drop out of the game and give up its primary dealer status. Meanwhile, Japanese firms, which have been actively seeking, and getting, this same green light, have seen their home market investment in Treasuries climb to a 40% share of all foreign activity in U.S. Treasuries!

EXHIBIT 4



During 88-Q2, total foreign activity in Treasuries rose from $784 billion to $820 billion, but net purchases were slashed in half to $12.2 billion. Though U.S. Treasury rates were higher, expectations of further hikes kept many buyers on the sideline, abetting this 50% slash in net purchases for the quarter. Although interest rates took a temporary dip as Q2

closed, the expected upward spiral did arrive during Q3 but continued uncertainty over rate directions contributed to both a reduced gross level of activity (down to $769 billion in Q3) and a net dumping of nearly $1.4 billion in Treasuries (Exhibit 5). The outflow would have been more than twice as severe, however, if not for continued, albeit dramatically reduced, net purchases from Japan -- $1.7 billion.

EXHIBIT 5

NET FOREIGN PURCHASES OF
U.S. TREASURY NOTES AND BONDS
($ Millions)

	Full Year 1987*	First Quarter 1988*	Second Quarter 1988	Third Quarter 1988
Europe	$23,716	$13,670	$2,215	$ (3,638)
Germany	13,330	5,361	(2,585)	(6,979)
Switzerland	1,917	(427)	689	(1,062)
United Kingdom	3,975	4,029	1,667	3,233
Asia	4,488	12,156	4,718	2,969
Japan	868	12,304	3,415	1,700
"Other Asia"	(3,142)	(528)	(299)	584
Nonmonetary Int'l & Regional Organizations	(5,302)	(881)	1,971	(1,184)
Total All Countries	**$25,587**	**$26,707**	**$12,245**	**$ (1,377)**

Source: U.S. Treasury

* Revised.

More importantly, central bank action in 88-Q3 was entirely "sell dollars and buy home currencies." Over $2 billion in Treasuries were sold in these actions in August and about $1.5 billion, net, was sold in each of the following two months. This negated about $5 billion in net purchases from the foreign private sector.

U.S. Corporate Bonds

Foreign activity in U.S. corporate bonds, long the stepchild of foreign investment in U.S. securities, dwindled for the second straight year back to under $100 billion based on nine month results, annualized. These securities account for only 2% of total foreign securities activity in the U.S. (Exhibit 3), since they are more easily bought in home markets with the same brand names available in Eurobonds or Samurais.

Nonetheless, the $20 billion in activity experienced in Q1 and Q2 grew to $24 billion in Q3, and net purchases held above $6 billion for the second straight quarter (Exhibit 6).

EXHIBIT 6

GROSS TRANSACTIONS IN AND NET PURCHASES OF U.S. CORPORATE BONDS

($ Millions)

	Second Quarter 1988		Third Quarter 1988	
	Gross Activity	Net Purchases	Gross Activity	Net Purchases
Europe	$11,099	$4,379	$13,611	$3,909
Belgium-Luxembourg	447	116	631	(101)
France	468	10	597	61
Germany	1,094	522	940	114
Switzerland	951	51	880	6
United Kingdom	7,151	3,395	9,556	3,314
Asia	6,326	1,698	7,279	1,782
Japan	5,510	1,634	6,139	1,663
"Other Asia"	406	(86)	736	(71)
Total All Countries	$19,719	$6,583	$23,609	$6,070

Source: U.S. Treasury

U.K., Japanese and OPEC interest, in that order, kept the capital flows on the positive side into domestic corporates for the six months ended in September. Although interest rates were spiking upwards during this period with concern of further increases, new high yield issues, particularly from LBO deals, offered buying opportunities for foreign investors with an eye for these risk/reward issues.

U.S. Capital Still Not Seeking Exit Visas

As Exhibit 7 shows, U.S. investors have maintained their post-crash gross activity in foreign stocks at the $36 billion quarterly level. Assuming this continued pace in the fourth quarter, U.S. investors will have bought and sold $143 billion in foreign equities during 1988. That's about 24% off 1987's record level of $189 billion, but still the second highest annual showing ever, bettering 1986's previous second best level of $101 billion by 42%.

EXHIBIT 7

GROSS TRANSACTIONS IN AND NET PURCHASES OF FOREIGN STOCKS BY U.S. INVESTORS
($ Millions)

	Second Quarter 1988		Third Quarter 1988	
	Gross Activity	Net Purchases	Gross Activity	Net Purchases
Europe	$17,273	$(299)	$18,192	$1,670
France	388	162	866	236
Germany	1,279	91	1,050	154
Netherlands	865	43	1,080	(20)
Switzerland	1,235	25	1,092	62
United Kingdom	11,319	(551)	12,238	1,008
Canada	2,610	(38)	1,612	(106)
Asia	12,960	(546)	14,002	(1,112)
Japan	11,598	(444)	12,465	(1,177)
Other	2,313	(299)	2,640	4
Total All Countries	**$35,156**	**$(1,182)**	**$36,446**	**$456**

Source: U.S. Treasury

Net purchases of foreign stocks by U.S. investors is running at a mere $200 million annual pace for 1988. U.S. investors have been net buyers of foreign equities in every year during the Eighties except crash-impacted 1987, when Q4's selloff of $3.7 billion brought the annual total to a negative $1.1 billion. Discounting 1987, however, 1988's net purchase pace of $200 million (January - September, annualized) will be the lowest level of foreign equities bought by U.S. investors since 1981.

The selloff of $1.2 billion in 88-Q2 more than wiped out the $890 million of net purchases in Q1 as well as negating part of the $456 million in net buys in Q3. The net purchase of nearly $1 billion in Q1 is entirely attributable to U.S. investors' net purchases of $1 billion worth of Japanese stocks.

Interestingly, U.S. investors were net sellers of about half a billion dollars worth of U.K. equities in each of 1988's first two quarters, while the "Financial Times" all-share index

showed a steady 6% increase in stock values. Then, in the third quarter, as the market gave back most of the previous six months' gains, U.S. investors bought a net of $1 billion. Netting the selloff in Japanese stocks with U.K. purchases, the third quarter's net purchase total, albeit small, came from U.S. interest in German and French issues.

In sum, although gross activity in foreign equities by U.S. investors from January through September is running at the second highest annual level ever, portfolio shifting inter-, as well as intra-market, will leave 1988 at one of the lowest levels of the Eighties for U.S. interest in acquiring foreign equities.

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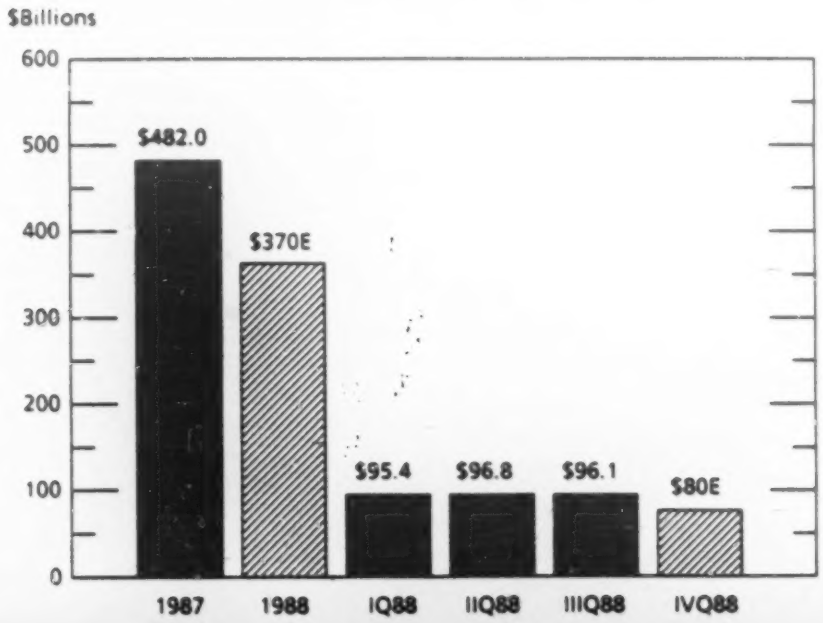
UPDATE ON FOREIGN ACTIVITY IN U.S. EQUITIES "1988"

A Good Recovery BUT...

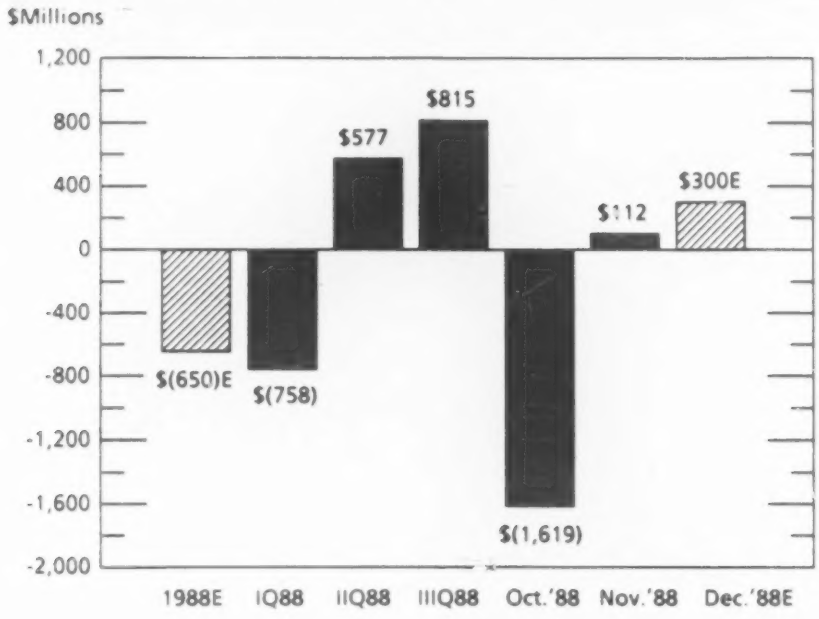
The U.S stock market staged a strong recovery, 12%-18%, from the 1987 crash, fueled largely by take-over related activity. But the steady and slow uphill climb of the U.S. stock market was not enough to convince foreigners to return to U.S. equities with any real enthusiasm. Given a 14.4% drop off in NYSE share volume, U.S. investors also were cautious in 1988. Indeed, without a 10.1% boost from dividend capture transactions, NYSE volume would have been down by more than 20% from the 1987 level.

Through the first three quarters of the year, gross foreign purchases plus gross sales of U.S. equities reached $288.4 billion, or about 59.8% of 1987's record $482.0 billion. The pace of gross transactions slowed in the fourth quarter, with

Foreign Gross Activity in U.S. Equities



Foreign Net Activity in U.S. Equities



$28.0 billion and $23.8 billion registered in October and November, respectively. Annualizing for 1988 brings foreign gross activity in U.S. equities to an estimated $365-$375 billion. For 1988, foreign gross transactions in U.S. equities missed the 1987 record by 25% or over $100 billion, but surpassed 1986's $277.5 billion by 33% or almost $100 billion.

Although the stock market trudged upward in the last quarter of the year to a modest December rally, the dollar ran into troubling times, particularly in September and October. Foreign investors were quick to move out, escalating net sales of U.S. equities from $581 million in September to $1.6 billion in October -- the largest monthly movement of the year in either direction. Some intervention to help the dollar, another 4 years of Republican leadership, and temporarily eased inflation fears saw foreign investors take a more moderate position in November -- net purchases of $112 million. The December rally most likely enticed foreign investors to up their investment, but caution remained the byword. We estimate foreign investors made net purchases of around $300 million in December.

Hence, foreign investment in U.S. equities in 1988 pales in comparison to prior years. We estimate foreign investors were net sellers of between $500-$800 million of U.S. equities. In contrast, foreign investors were net purchasers of $16.3 billion in 1987 and $18.7 billion in record-year 1986. The last time foreign investors were net sellers of U.S. equities was in 1984, when they sold $3.0 billion.

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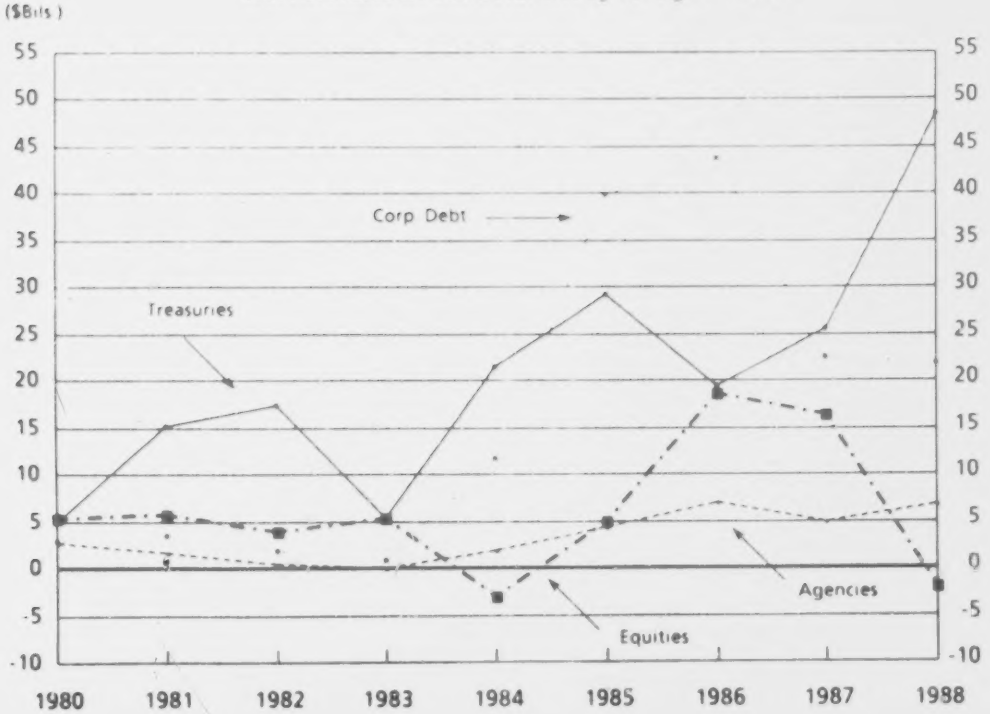
Foreign Investment In U.S. Securities: A Change of Heart

Despite worries that the crash and a weak dollar might dissuade foreign investors in 1988, investment in United States securities of all kinds reached its third highest level, $75 billion, and exceeded 1987's $69.4 billion. While 1988's net purchases are only 8% above 1987, foreign investors' preferences for securities showed a distinct change. In 1987, foreign equity purchases accounted for nearly 24% of portfolio investment while fixed income purchases accounted for 76%. The crash had a lasting impact; after net purchases totalling $35 billion in 1986 and 1987, or 22% of portfolio flows, foreign investors were net sellers of equities in 1988. In light of net sales of U.S. equities, fixed-income securities accounted for over

Net Purchases Of U.S. Securities By Foreign Investors



100% of total net purchases. Further, of fixed-income purchases, nearly 65% were in U.S. Treasuries, contrasting sharply with the 34% average for the last three years.

Foreign Investment in U.S. Equities: Caveat Emptor

For the first time since 1984, foreign investors were net sellers of U.S. equities. With foreign investors buying stocks in other equity markets, uncertainty about the dollar had to be a major concern for those foreign investors interested in U.S. equities. Although the U.S. stock market staged a modest rally in December, foreign investors headed home, or to other more promising markets, with net sales of $1.2 billion of U.S equities. Hence, in the final quarter of 1988, foreign investors were net sellers of a relatively large $2.8 billion of U.S. equities. The two largest foreign investors in U.S. equities led the retreat, with U.K. and Japanese investors making net divestitures of $1.0 billion and $900 million, respectively. Interestingly, U.K. investors made net purchases of over $5 billion of non-U.S. foreign equities in the fourth quarter, emphasizing again that non-domestic equities were attractive, excluding dollar denominated stocks.

TABLE I

GROSS TRANSACTIONS IN AND NET PURCHASES OF U.S. EQUITIES
($ Millions)

	1987		1988		% Change 1988 1987
	Gross Activity	Net Purchases	Gross Activity	Net Purchases	Gross Activity
Europe	**$232,464**	**$ 1,932**	**$154,152**	**$ (3,423)**	**(33.7%)**
Belgium-Luxembourg	11,732	435	7,738	134	(34 0)
France	20,055	(905)	12,028	(281)	(40 0)
Germany	16,208	(70)	10,966	223	(32 3)
Netherlands	11,278	892	5,828	(535)	(48 3)
Switzerland	59,533	(1,123)	34,909	(2,242)	(41 4)
United Kingdom	103,909	631	73,235	(1,034)	(29 5)
Canada	**49,947**	**1,048**	**33,941**	**1,088**	**(32.0)**
Latin America & Caribbean	**46,900**	**1,318**	**38,301**	**1,248**	**(18.3)**
Bermuda	10,424	(102)	6,663	55	(36 1)
Netherlands Antilles	15,581	(167)	12,729	385	(18 3)
Asia	**142,361**	**11,535**	**129,624**	**(1,104)**	**(8.9)**
Hong Kong	12,489	658	6,878	(250)	(44 9)
Japan	102,575	11,365	104,601	1,923	2 0
"Other Asia" *	20,545	(1,360)	14,143	(2,466)	(31 2)
Total All Countries	**$481,971**	**$16,272**	**$363,965***	**$(2,062)***	**(24.5)**

Source U S Treasury

* Total activity incorporates revised data, country activity does not incorporate revisions

Given net sales of over $1.0 billion in three months of the year and modest net purchases in six of the remaining months, the result was net sales of $2.1 billion for the year. Thus, foreign investors were net sellers for the first time since 1984, when net sales totaled $3.0 billion. The 1988 investment pattern contrasts starkly with net foreign capital inflows of $16.3 billion and $18.7 billion in 1987 and record-year 1986, respectively. The contrasts are sharp and remind us that foreign portfolio investment will not necessarily provide an unending stream of support for U.S. markets. However, as we'll soon see, foreign investors continue to be attracted to U.S. securities.

TABLE II

FOREIGN NET PURCHASES OF U.S. EQUITIES
($ Millions)

	1988 First Quarter	*1988 Second Quarter*	*1988 Third Quarter*	*1988 Fourth Quarter*
Europe	**$(908)**	**$(637)**	**$(103)**	**$(1,804)**
Belgium-Luxembourg	76	151	(15)	(79)
France	(132)	(33)	(92)	(24)
Germany	201	2	(8)	28
Netherlands	(236)	(244)	(42)	(14)
Switzerland	(399)	(468)	(632)	(757)
United Kingdom	(599)	(137)	732	(1,043)
Canada	**(80)**	**171**	**264**	**734**
Latin America & Caribbean	**217**	**32**	**527**	**284**
Bermuda	(9)	31	33	(12)
Netherlands Antilles	77	73	37	198
Asia	**(130)**	**1,063**	**(94)**	**(1949)**
Hong Kong	(180)	(40)	22	(51)
Japan	1,072	1,544	217	(900)
"Other Asia"	(933)	(463)	(256)	(827)
Total All Countries	**$(759)**	**$588**	**$814**	**$(2,756)**

Source: U.S. Treasury

Despite the lack of interest in adding U.S. equities to their portfolios, foreigners still actively trade U.S. equities. Gross transactions were $364.0 billion in 1988, a drop of 24% from the record $482.0 billion for 1987. Nevertheless, foreign gross activity in 1988 was the second highest figure ever. On a quarterly basis, gross activity peaked in the second quarter of 1988 at $102.8 billion, well below 1987's quarterly average of $120.4 billion. Foreign activity continued to wane throughout the rest of 1988, dropping to $75.6 billion in the fourth quarter. We have to return to 1986 to find similar levels (quarterly average was $70 billion).

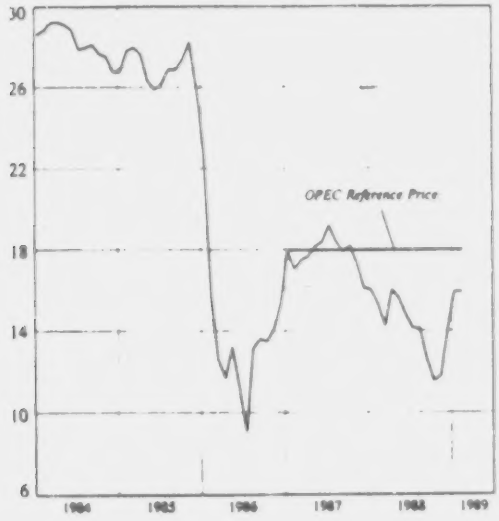
Both European and Canadian investors reduced their activity substantially in 1988, by 33.7% and 37.0%, respectively. Asian investors, however, only decreased their activity by 9%, though this is attributable to Japanese flows. Japanese investors actually increased their activity in 1988, inching up 2% to $104.6 billion. Remarkably, gross activity by Japanese investors alone in 1988 was 68% of that for all European investors; in 1987 this number was at a "mere" 44%.

Japanese investors showed similar prowess in terms of net purchases. While most of their attention was given to the high flying Tokyo market, they still added $1.9 billion of U.S. equities to their holdings in 1988. While down substantially from 1987's record $11.4 billion, Japan was one of only two foreign countries to commit a billion dollars or more to U.S. equity markets in 1988. Canada was the other country, with net purchases of $1.1 billion.

Despite these inflows, foreign investors were net sellers of U.S. stocks for the first time since 1984. Oil exporting countries were the most prolific sellers, reducing their holdings by just under $2.5 billion in 1988. This marked their second consecutive year, for eight consecutive quarters, as net sellers. Since oil prices trended downward in the 1980s, while OPEC countries are devoting increasing resources to modernize their countries, this selling reflected their need for supplemental funds. Data from the International Monetary Fund supports this need.1/

AVERAGE SPOT MARKET PRICE FOR SELECTED CRUDE OILS, 1984-1989

(In U.S. dollars a barrel)



Source: International Monetary Fund, World Economic Outlook, April 1989

1/ OPEC's oil trade balance has plummeted from a $278.8 billion surplus in 1980 to a projected $89.7 billion for 1988. These countries have actually had a current account deficit for six of the last seven years and have seen their investment income cut by nearly half, from 1981 to 1988.

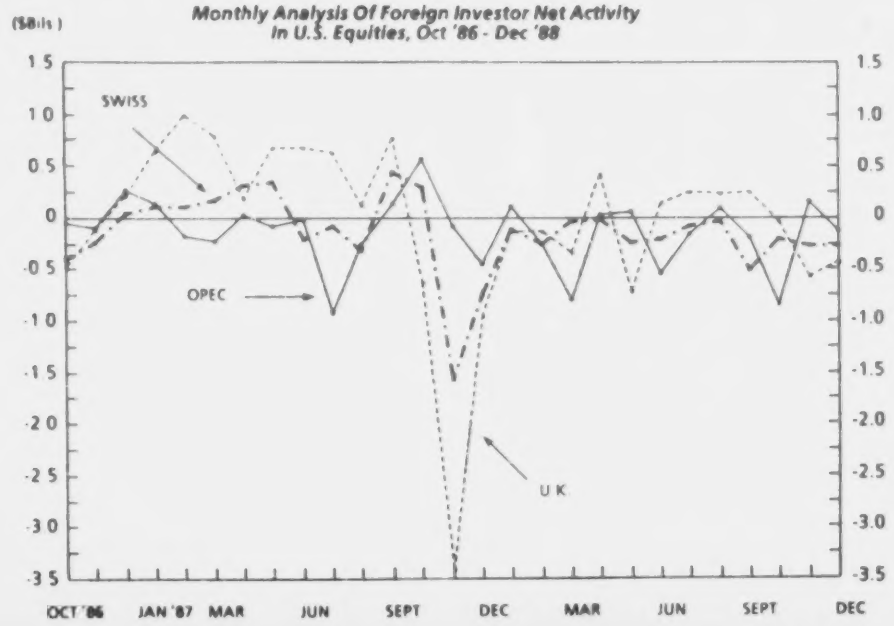
That the crash had a major influence on these investors is debatable. As the table below shows, the crash, if it had any impact on OPEC countries, merely expedited a trend begun earlier in 1987.

Net Purchases of U.S. Equities By Oil Exporting Countries
($Mils.)

4Q	$ (827)
3Q	(256)
2Q	(463)
1Q88	(935)
4Q	(38)
3Q	(1,033)
2Q	(95)
1Q87	(269)
4Q86	125
Total	$(3,776)

Heavy net sellers also included the Swiss, with net sales exceeding $2.2 billion, and U.K. investors, with over $1 billion. In distinct contrast to OPEC investors, however, residents of the U.K. reacted quickly and sharply to the crash. As the graph shows, prior to the crash, U.K. investors had been net purchasers of U.S. equities for 10 consecutive months, from December 1986 to September 1987. The crash of October, 1987 initiated six consecutive months of net sales, totalling $5.6 billion, nearly wiping-out the $5.7 billion in net purchases made during the ten months prior to the crash. U.K. investors, however, have slowly begun to dabble back to U.S. equities.

Swiss investors also reacted to the crash, though, as the graph indicates, some selling pressure may have been building. While Swiss investors did not act as swiftly as U.K. investors, the crash left a more lasting impact. Swiss investors have been net sellers of U.S. equities for fourteen consecutive months through 1988.



Foreign Activity In U.S. Treasuries

Trading of U.S. Treasuries by foreign investors continued to be active in 1988, increasing 16.4% to a record $3 trillion, or almost an unbelievable 31.5 times greater than activity at the beginning of the decade. Japanese investors raised their activity to $1.5 trillion in 1988, a 17% increase over the $1.2 trillion in 1987. Sterling based investors, however, raised their activity in U.S. Treasuries by a whopping 32.1%, from $604.8 billion in 1987 to $798.9 billion in 1988. In net terms, Central bank intervention in the foreign exchange markets and increased interest by private investors, fueled net purchases of U.S. Treasuries to a record $48.5 billion.

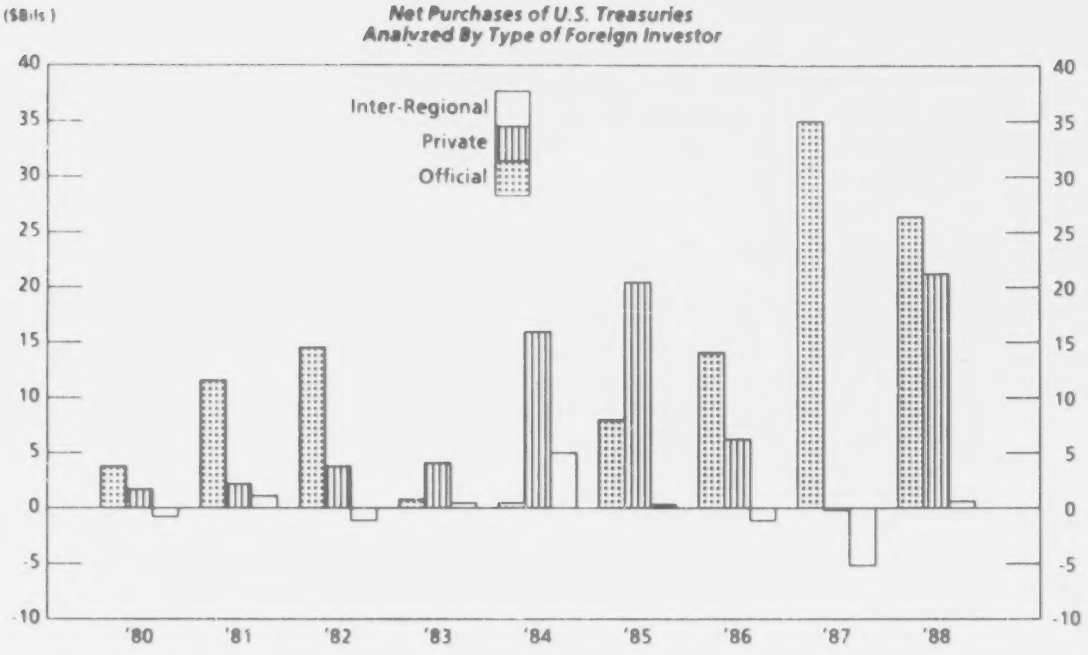
TABLE III

FOREIGN GROSS ACTIVITY AND NET PURCHASES OF
U.S. TREASURY NOTES & BONDS
($ Millions)

	1987		1988		% Change 1988-1987
	Gross Activity	Net Purchases	Gross Activity	Net Purchases	Gross Activity
Europe	**$ 907,856**	**$23,716**	**$1,163,593**	**$14,255**	**28.2%**
Germany	89,670	13,330	79,706	(5,348)	(11.1)
Switzerland	28,279	1,917	24,487	(1,074)	(13.4)
United Kingdom	604,831	3,975	798,901	9,667	32.1
Asia	**1,245,390**	**4,488**	**1,457,103**	**27,357**	**17.0**
Japan	1,050,936	868	1,238,009	21,753	17.8
"Other Asia"	63,414	(3,142)	81,370	1,715	28.3
Nonmonetary Int'l & Regional Organizations	**297,710**	**(5,302)**	**246,117**	**686**	**(17.3)**
Total All Countries	**$2,649,308**	**$25,587**	**$3,083,732**	**$48,529**	**16.4%**

Source: U.S. Treasury

Central bank participation was a major factor again in the U.S. Treasury market. For the third consecutive year, central bank net purchases of U.S. Treasuries exceeded those of the private sector. The efforts by G-7 countries to "fix" exchange rates, as well as to prevent at different times, a further decline, or destabilizing increase, of the dollar, led to substantial intervention. Because of these efforts, central bank net purchases in 1988 totalled a healthy $26.5 billion, albeit $4.6 billion less than 1987's record $31.1 billion. While data is not available, presumably, the increase in central bank net activity has been followed by a similar surge in gross activity.



Moreover, data on official reserves from various central banks further underscore the substantial intervention. In that central banks agreed to stem the ascent of the dollar in late 1985, this period is used as the beginning point in the next table.

Central Bank Intervention Swells
Official Reserves
($Bils.)

	Nov 1988	Dec 1985	% Change
Japanese	$ 97.1	$ 26.5	266.4%
U.K.	51.0	15.5	229.0
W. German	66.2	48.0	37.9
Total G-7	$347.0	$184.5	88.1%

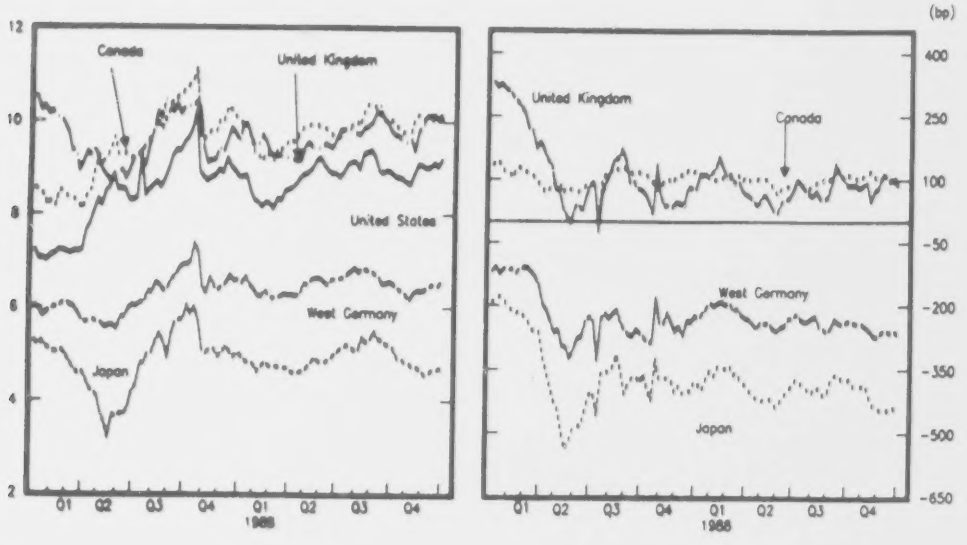
Source: Bank of Japan, Economic Statistics Monthly

This table masks a substantial drop in West German central bank reserves in 1988, reflecting Bundesbank support of the deutschemark. Indeed, a decline of $17 billion in West German reserves in 1988 offset 60% of their reserve accumulation in 1987. As expected, U.S. Treasury data indicate substantial West German net sales of U.S. Treasuries in 1988, over $5 billion; in contrast, West German net purchases totalled $13.3 billion in 1987.

Private investors also joined the U.S. Treasury party in 1988. Following net sales of $200 million in 1987, which reflected private investor concern over central banks' ability to stabilize the dollar, private investors returned to make record net purchases of $21.3 billion in 1988. Since 1987 was the first year since 1972 that private investors were net sellers of U.S. Treasuries, this represented a dramatic reversal.

Indeed, for the last three quarters of 1988, net purchases by private investors totalled $14.2 billion, exceeding the $6.1 for central banks. As the U.S. economy grew faster than anticipated, and yields on U.S. Treasuries topped 9%, foreign investors "snapped-up" U.S. Treasuries. Japanese investors, for instance, saw the yield spread of U.S. Treasuries over Japanese governments increase from around 350 to over 450 basis points from early 1988 to late 1988.

Ten-Year Government Yields and Spreads
Versus Ten-Year U.S. Treasury



Source: Salomon Brothers Inc

U.S. Activity In Foreign Equities:
We Shall Return!

U.S. investors, although approaching overseas markets with caution in the first half, were net purchasers of $1.7 billion of foreign stocks in 1988. In comparison, net activity resulted in sales of $1.1 billion of foreign stocks in

1987 for the first time since 1978. So, until 1987, the trend favored by U.S. institutional investors was to increase their holdings of foreign equities. Indicative of lower turnover rates in 1988, U.S. investors reduced their trading of foreign equities by 20.5% to $150.8 billion. Interest in foreign stock was strongest in the fourth quarter, with net purchases of $1.4 billion, as U.S. investors rushed back into high flying Japanese stocks. U.S. investors divested some $1.6 billion of Japanese stocks in the second and third quarters of the year, but reversed course and made fourth-quarter investments of $1.2 billion. For those steadfast U.S. investors who rode out the Japanese market from year-end to year-end, the return was a hefty 33%. However, a strengthening dollar reduced this return to a 29% gain.

TABLE IV

GROSS TRANSACTIONS IN AND NET PURCHASES OF FOREIGN STOCKS BY U.S. INVESTORS

	1987		1988		% Change 1988-1987
	Gross Activity	Net Purchases	Gross Activity	Net Purchases	Gross Activity
Europe	**$101,406**	**3,484**	**75,445**	**1,279**	**(25.6)%**
France	6,148	(178)	4,008	402	(34.8)
Germany	8,651	(399)	4,525	239	(47.7)
Netherlands	5,170	38	3,974	(206)	(23.1)
Switzerland	6,313	739	5,309	521	(15.9)
United Kingdom	67,892	3,274	51,213	403	(24.6)
Canada	**18,857**	**2,357**	**9,645**	**(477)**	**(48.9)**
Asia	**56,693**	**(7,257)**	**55,846**	**822**	**(1.5)**
Japan	47,784	(6,490)	40,158	634	(16.0)
Other	**12,879**	**335**	**9,906**	**(110)**	**(23.1)**
Total All Countries	**$189,835**	**$(1,081)**	**$150,842**	**$1,514**	**(20.5)%**

Source: U.S. Treasury

* Total activity incorporates revised data, country activity does not incorporate revisions

Strong economic growth in Europe and a 10% gain in European equity prices in 1988 was not enough to convince U.S. investors to step-up their commitment to European equities. U.S. investors' appetite for European equities waned, as they slashed activity by 25.6% and net activity by close to three times. Part of this explanation may lie in a recent report, which noted that "recent data on cross-border equity flows confirm that international investors have been overweighting Europe within global equity portfolios."[2]

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[2] Salomon Brothers Inc, Global Equity Investment Strategy

Hardest hit were U.K. equities, where U.S. investors reduced their net acquisitions from $3.3 billion in 1987 to $403 million in 1988. A deteriorating trade balance, inflationary expectations and rising interest rates was enough to send U.S. investors to other markets.

Equity Market
Returns For U.S. Investors
(U.S. Dollars)

	% Change Dec. 87-Dec. 88
Europe	**9.6%**
France	33.6
Germany	13.8
Netherlands	12.1
Switzerland	(6.5)
United Kingdom	2.1
Canada	**13.7**
Asia	**35.1**
Japan	35.4
World ex. U.S.	**25.7**
U.S.	**12.6**

Source: Goldman Sachs/FT-Actuaries World Indices

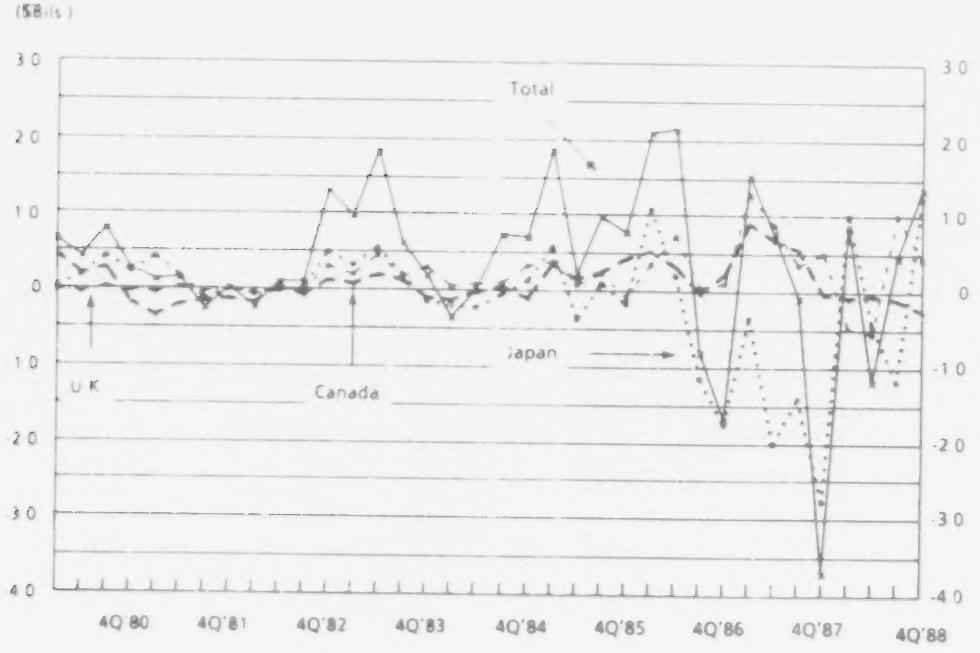
It seems that the U.S.-Canadian Free Trade Agreement failed to inspire U.S. investors, who decreased their activity in Canadian equities by nearly 50%, from $18.9 billion in 1987 to $9.6 billion in 1988. Moreover, U.S. investors reduced their holdings of Canadian equities by $477 million, one year after net purchasers of $2.4 billion. This is consistent with official data sources in Canada, which indicate that since the crash, foreign investors have made net sales of close to C$3 billion in Canadian equities (with net purchases of a record C$8.3 billion of Canadian bonds). Despite a deterioration in Canada's current account balance, the Canadian economy has not been marked with any significant bad economic news. This market is still facing the lingering negative impact of the 1987 crash.

The run-up in the Japanese market, though, has encouraged foreign investors to seek Japanese equities. Following net sales of $6.5 billion in 1987, U.S. investors did an about-face and made net purchases of $634 million; and were handsomely rewarded with a return of over 28%.

Finally, the graph below indicates that increase in gross flows during the 1980s has been followed by dramatic increases in the size of U.S. investor net flows into, and out of, foreign markets. Prior to 1985, capital flows into the equity markets of the countries analyzed ranged monthly from approximately net purchases of $500 million to net sales of $500 million.

Post-1985 flows have been much more erratic, ranging from net sales of nearly $3 billion to net purchases of $1.5 billion, on a monthly basis. Such dramatic shifts in capital flows indicate that U.S. investor's impact on overseas equity prices may be increasing and therefore the monitoring of such movements is all the more important for equity markets throughout the world and global money managers.

Net Purchases Of Foreign Stocks By U.S. Investors: The Increasing Magnitude Of Net Flows



David G. Strongin
Director,
International Finance

TABLE V

GROSS TRANSACTIONS IN & NET PURCHASES OF
U.S. CORPORATE BONDS
($ Millions)

	1987		1988		% Change 1988-1987
	Gross Activity	Net Purchases	Gross Activity	Net Purchases	Gross Activity
Europe	**$ 76,924**	**$20,132**	**$51,830**	**$15,149**	**(32.6)%**
Belgium-Luxembourg	3,132	(312)	2,104	(171)	(32 8)
France	2,219	209	2,334	75	5 2
Germany	4,879	(203)	4,053	990	(16 9)
Switzerland	6,353	1,623	3,740	346	(41 1)
United Kingdom	55,730	18,309	35,226	12,452	(36 8)
Asia	**16,936**	**480**	**24,964**	**5,068**	**47.4**
Japan	12,407	513	24,330	4,864	96 1
"Other Asia"	3,294	(215)	2,226	(204)	(32 4)
Total All Countries	**$103,562**	**$22,497**	**$87,702**	**$21,914**	**(15.3)%**

Source U S Treasury

SIA

Foreign Activity

An Analysis of Foreign Participation in the U.S. Securities Markets
Produced by the SIA Research Department

Securities Industry Association
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Foreign Activity In U.S. Equities: They're Back?

Despite a steady increase in interest rates during the first quarter of 1989, foreign investors took their cue from unexpected strength in the dollar. Displaying cautious confidence in the U.S. equity market, foreign investors made net purchases in 1Q89 totalling $389 million. In stark contrast, foreign investors sold near $2.8 billion of U.S. equities in the 4Q88.

The change in net activity came on a 21.5% increase in gross activity, from $75.7 billion to $91.8 billion. The first quarter total compares favorably to last year's quarterly average of $91 billion but, still suffering from the aftermath of October 1987, was off nearly 25% from 1987's quarterly average of $120.4 billion.

GROSS TRANSACTIONS IN AND NET PURCHASES OF U.S. EQUITIES
($MILLIONS)

	FOURTH QUARTER 1988		FIRST QUARTER 1989		
	GROSS ACTIVITY	NET PURCHASES	GROSS ACTIVITY	NET PURCHASES	% CHANGE 1Q89 4Q88
EUROPE	**$39,438**	**($1,800)**	**$47,224**	**($154)**	**22.9%**
BELGIUM-LUXEMBOURG	1,946	(79)	2,920	(12)	50.1%
FRANCE	3,058	(24)	3,365	268	10.0%
GERMANY	2,758	35	4,082	148	48.0%
NETHERLANDS	1,211	(14)	1,753	69	44.8%
SWITZERLAND	8,863	(758)	10,410	(1,434)	17.2%
UNITED KINGDOM	17,779	(1,044)	22,219	767	25.0%
CANADA	**9,464**	**733**	**10,331**	**1,089**	**9.3%**
LATIN AMERICA & CARIBBEAN	**10,377**	**450**	**12,220**	**1,806**	**17.8%**
BERMUDA	1,658	(12)	2,311	485	39.4%
NETHERLANDS ANTILLES	3,738	199	4,247	999	13.6%
ASIA	**15,533**	**1,949**	**20,214**	**(1,299)**	**30.1%**
HONG KONG	1,483	(51)	2,174	56	46.6%
JAPAN	9,860	(900)	12,826	(1,508)	30.1%
OIL EXPORTING COUNTRIES	3,497	(827)	4,233	385	21.0%
TOTAL ALL COUNTRIES*	**$75,609**	**($2,751)**	**$91,836**	**$389**	**21.5%**

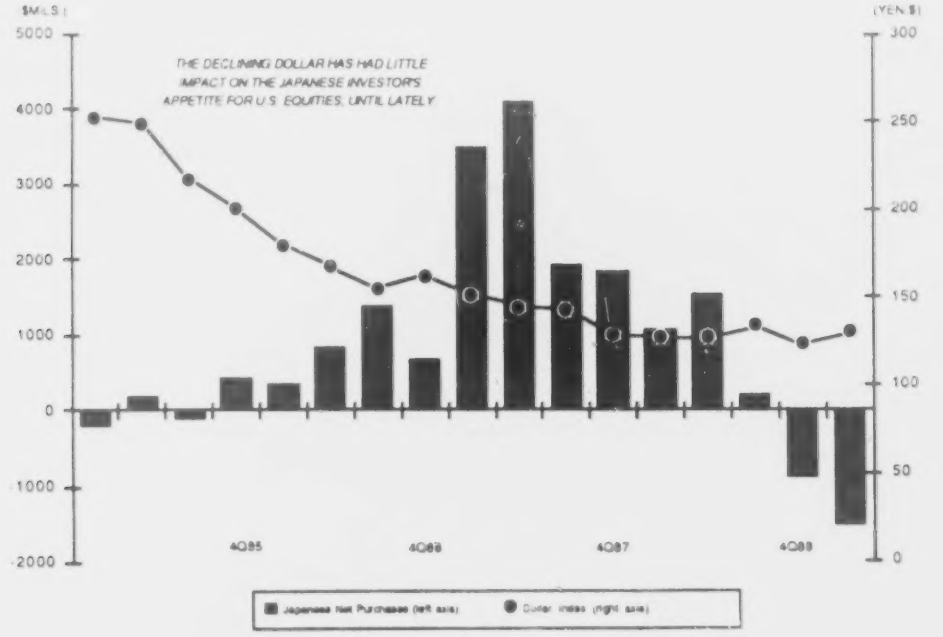
Source: U.S. Treasury

The appetite for U.S. equities during 1Q89 was not broad-based. Indeed, while gross transactions increased for all countries, both European and Asian investors were net sellers of U.S. equities. Specifically, Swiss and Japanese investors were net sellers for a combined total of $3 billion. For Swiss investors, net sales of $1.4 billion in the first quarter continued a string of divestment which has lasted six consecutive quarters.

Though the dollar rebounded in the first quarter, Japanese investors continued to display concern over the direction of the dollar. Japanese investors, who made net sales of $900 million in the 4Q88, reduced their holdings by an additional $1.5 billion in the 1Q89. However, preliminary data from the Bank of Japan indicate a resurgence in Japanese accumulation of overseas equities; net purchases of overseas equities in April totalled $1.7 billion alone.

The chart below graphs the relationship between the declining dollar and net purchases of U.S. equities by Japanese investors. The graph indicates that while the psychological impact of the decline in the dollar does seem to have had a negative impact on these investors' appetite for U.S. equities, the impact has been recent. Indeed, the decline in the dollar seems, for the most part, to have had little impact until recently. One explanation may lie with the increased purchasing power of the Yen which, when combined with deregulation in Japan and growing capital surpluses, outweighed any effect the decline in the dollar had on Japanese interest in U.S. equities.

JAPANESE NET PURCHASES OF U.S. EQUITIES



In terms of gross activity, Japanese investors have slumped to pre-1987 levels. While first quarter activity of $12.8 billion rebounded 30.1% over the previous quarter's $9.9 billion, it is still 51% below 1988's quarterly average of $26.2 billion and 50% below 1987's $25.6 billion.

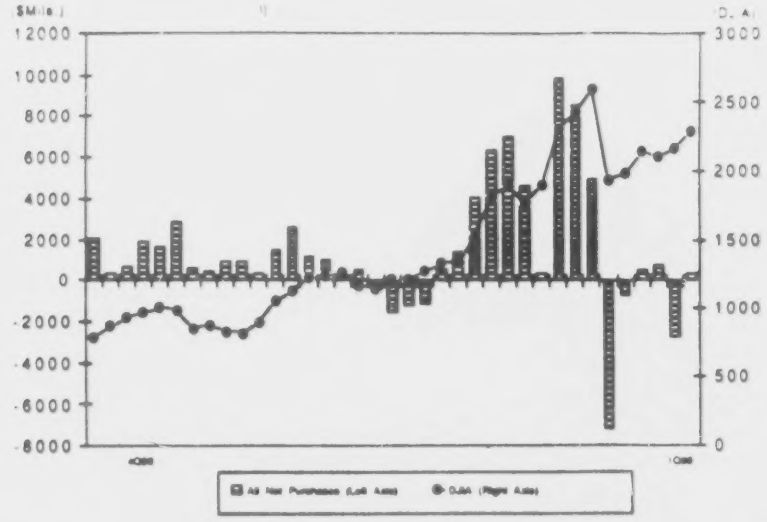
On the other hand, those foreign investors who committed capital to the U.S. equity markets were not only treated to a 6% increase in equity prices (as measured by the DJIA) but an increase in the value of the dollar.

Canadian investors, who increased their gross activity in U.S. stocks by 9.3% to $10.3 billion, were the largest net purchasers of U.S. stocks, over $1 billion. Further, the $1 billion plus in capital committed to the U.S. equity market in the first quarter exceeded total net purchases made by Canadian investors in any other previous quarter or year.

U.K. investors, after making over $1 billion in net sales of U.S. equities during the 4Q88, reversed gears and made $767 million in net purchases. With U.K. equity prices increasing 14% in January, and 15.7% for the quarter, their interest in U.S. equities was focused in February, with $800 million in net purchases. The prospect of further tightening of U.K. monetary policy and the subsequent adverse impact on equity prices contributed to U.K. investors seeking other markets.

Finally, the chart below graphs quarterly net purchases of U.S. equities by foreign investors versus quarterly movements in the Dow. While a rigorous statistical analysis would give us some clue as to correlation and causation in these movements, the graph indicates that lately, foreign investors (as a group) have done their most active net purchasing prior to a downturn, or levelling off, of the Dow. However, that the sharpest increases in the Dow (1986 and 1987) should be accompanied by large net purchases by foreign investors may support those who argue that foreign purchases are crucial to stock price trends.

Foreign Net Purchases Of U.S. Equities
And Movements In The Dow



Foreign Activity In U.S. Treasuries: Support For The Dollar

With higher interest rates underpinning the stronger U.S. dollar, net purchases of U.S. Treasuries by foreign investors exceeded $20 billion in the

first quarter, well over the fourth quarter's $11 billion. Trading volume was also strong as gross transactions increased 21.5% over the fourth quarter's $710 billion, to $863 billion. We estimate that foreign turnover in U.S. Treasuries is about 14.5% of the volume reported by U.S. primary dealers.

GROSS TRANSACTIONS IN AND NET PURCHASES OF
U.S. TREASURY NOTES AND BONDS
($MILLIONS)

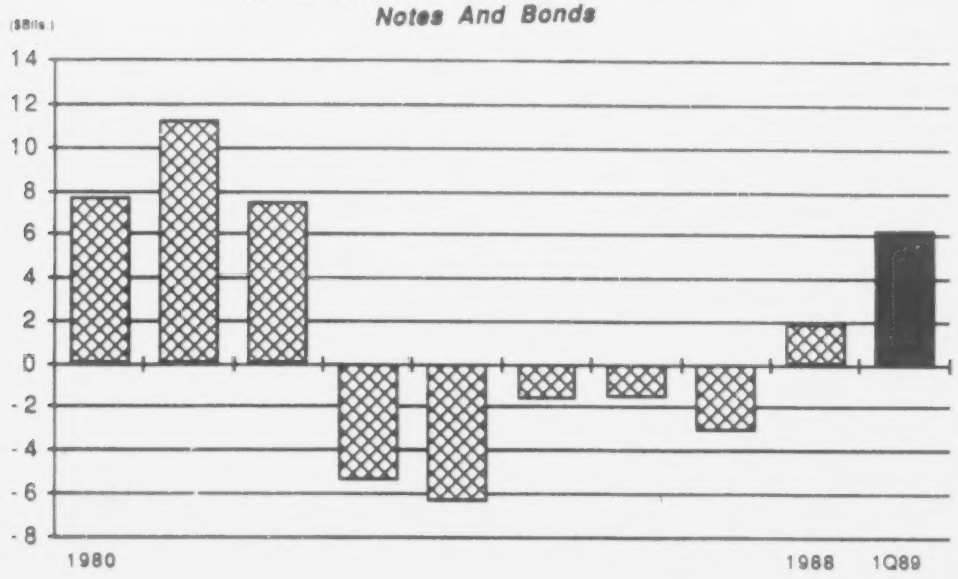
	FOURTH QUARTER 1988		FIRST QUARTER 1989		
	GROSS ACTIVITY	NET PURCHASES	GROSS ACTIVITY	NET PURCHASES	% CHANGE 1Q89-4Q88
EUROPE	$278,512	$1,848	$368,946	$8,294	32.5%
GERMANY	6,666	(1,144)	11,709	711	75.7%
SWITZERLAND	4,411	(341)	6,328	2,484	43.5%
UNITED KINGDOM	194,081	695	243,736	2,631	25.6%
ASIA	336,936	7,774	423,323	12,205	25.6%
JAPAN	286,207	4,287	356,737	4,467	24.6%
"OTHER ASIA"	23,335	2,177	$26,073	$6,280	11.7%
NONMONETARY INT'L & REGIONAL ORGANIZATIONS	$47,298	780	$28,439	$7	(39.9%)
TOTAL ALL COUNTRIES	$710,218	$11,112	$862,780	$20,412	21.5%

Source U.S. Treasury

Support for the dollar was evident in the first quarter as central banks made net purchases of $12.8 billion, over two and a half times the 4Q88's $5 billion. Moreover, while this represents the second highest level ever, it is still well below the record $20.4 billion in the 1Q88.

The appetite of private investors for U.S. Treasuries reached new heights as a record $7.6 billion in net purchases were made. However, similar to the narrow interest in U.S. equities, private purchases of U.S. Treasuries were almost exclusively made by OPEC. Indeed, OPEC made record net purchases of $6.3 billion in the first quarter, nearly double their previous high of $3.2 billion made in the 3Q86. Marking the third consecutive quarter in which OPEC has added to their holdings of U.S. Treasuries, the graph indicates that their return to the U.S. market has occurred as suddenly and sharply as did their disappearance.

OPEC Net Purchases Of U.S. Treasury Notes And Bonds



Over $4.4 billion in net purchases were also made by Japanese investors. In light of OPEC's considerable purchases, and strong support by central banks for the dollar, we believe that most of the Japanese net purchases were made by the Bank of Japan. Moreover, the table below indicates the movement away from dollar bonds by Japanese life insurance companies, the dominant investor group in Japan.

"Big Five" Life Insurance Companies
Foreign Bond Portfolios Weighting By Currency

	U.S. $		*Pounds*		*Aus. Dollars*	
Company	*Dec. 88*	*Sept. 87*	*Dec. 88*	*Sept. 87*	*Dec. 88*	*Sept. 87*
Nippon	52%	59%	12%	3%	11%	6%
Daiichi	40	38	8	9	17	7
Sumitomo	42	48	15	4	2	3
Meiji	32	32	13	9	15	14
Asahi	32	44	10	8	4	6

Source: Salomon Brothers Inc

Similarly, Swiss and U.K. inflows of $2.5 billion and $2.6 billion, respectively, are also believed to substantially represent official purchases.

U.S. Activity In Foreign Equities

U.S. investors stepped up their activity in foreign equity markets in the first quarter, with the main attraction being the Japanese equity market.

Gross transactions in foreign equities totalled $50.5 billion, up 15.8% from the fourth quarter's $43.6 billion. Net purchases nearly reached $1.7 billion, almost equalling 1988's full year total of $1.85 billion.

GROSS TRANSACTIONS IN AND NET PURCHASES OF FOREIGN STOCKS BY U.S. INVESTORS
($MILLIONS)

	FOURTH QUARTER 1988		FIRST QUARTER 1989		
	GROSS ACTIVITY	NET PURCHASES	GROSS ACTIVITY	NET PURCHASES	% CHANGE 1Q89-4Q88
EUROPE	$22,637	$175	$24,816	$1,152	9.6%
FRANCE	1,384	92	1,393	147	0.7%
GERMANY	1,056	120	1,428	(26)	35.2%
NETHERLANDS	1,188	(296)	1,091	123	(8.2%)
SWITZERLAND	1,764	(106)	1,535	161	(13.0%)
UNITED KINGDOM	15,628	430	17,654	586	13.0%
CANADA	2,150	(260)	2,226	108	3.5%
ASIA	15,878	1,578	20,107	867	26.6%
JAPAN	14,196	1,242	18,168	730	28.0%
OTHER	2,910	(136)	3,319	265	14.1%
TOTAL ALL COUNTRIES	$43,575	$1,357	$50,468	$1,662	15.8%

Source: U.S. Treasury

In an attempt to make up for lost time, U.S. investors committed $730 million to the Japanese market in the first quarter, boosting their Japanese equity assets by nearly $2 billion in the last two quarters. However, those investors looking for short-term gains were disappointed. The strength in the U.S. dollar relative to the Yen led to a currency adjusted return of (1.4%); considerably less than the eye-popping 35.4% gain last year.

EQUITY MARKET
RETURNS FOR U.S. INVESTORS
(U.S. DOLLARS)

	% CHANGE DEC. 1988-MARCH
EUROPE	2.4
FRANCE	0.3
GERMANY	(5.9)
NETHERLANDS	3.5
SWITZERLAND	(5.1)
UNITED KINGDOM	8.0
CANADA	7.0
ASIA	(1.2)
JAPAN	(1.4)
WORLD ex. U.S.	0.2
U.S.	6.1

Source: Goldman Sachs FT-Actuaries World Indices

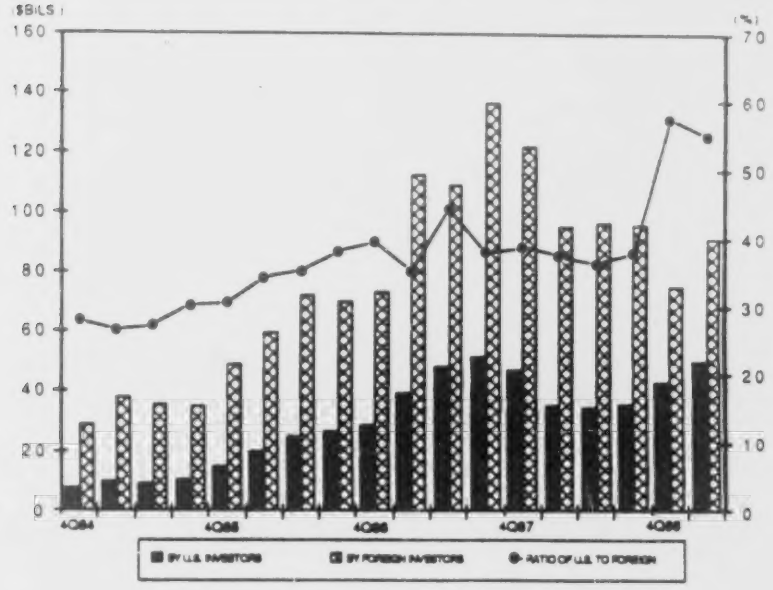
With European stocks showing a modest 2.4% gain for the quarter, U.S. investors made net purchases of $1.2 billion. U.K. stocks, of which U.S. investors made net additions of $586 million, were the equities of choice.

Not surprisingly, U.S. investors were net sellers of $26 million worth of German equities. After a rise of over 30% in 1988, German equities began to show weakness in the 1Q89. The strengthening dollar may have given U.S. investors an additional reason for ignoring German equities.

During the first quarter, U.S. investors made transactions in foreign equities of $50.5 billion, nearly 16% over the fourth quarter's $43.6 billion. The first quarter total nearly eclipsed the record $51.8 billion traded in the third quarter of 1987. To further put the first quarter total in perspective, it is interesting to note that as recently as 1985, gross activity in foreign shares by U.S. investors only totalled $45.1 billion for the year.

Further, the chart below shows that since the crash, U.S. gross activity in foreign equities has steadily regained momentum, and is now trading at 1987 levels. On the other hand, foreign activity in U.S. stocks, is still well below the levels recorded in 1987. This has led to a situation where U.S. investors' transactions in foreign stocks totalled over 50% of that traded by foreign investors in U.S. equities for the two most recent quarters, well above previous levels.

Relative To Foreign Investors,
U.S. Investors Are Increasingly Active Overseas



David G. Strongin
Director,
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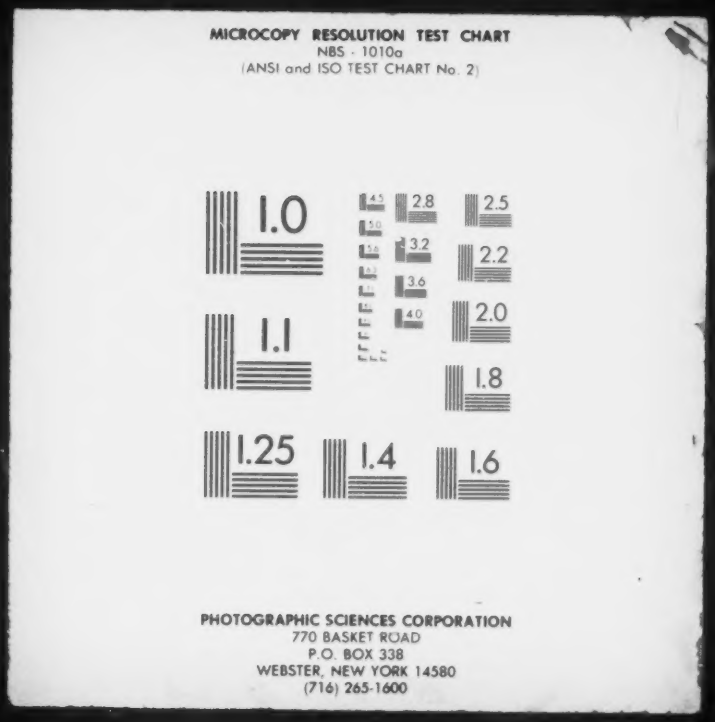
GROSS TRANSACTIONS IN AND NET PURCHASES OF U.S. CORPORATE BONDS
($MILLIONS)

	FOURTH QUARTER 1988		FIRST QUARTER 1989		
	GROSS ACTIVITY	NET PURCHASES	GROSS ACTIVITY	NET PURCHASES	% CHANGE 1Q89-4Q88
EUROPE	**$14,318**	**$5,370**	**$13,982**	**$4,080**	**(2.3%)**
BELGIUM-LUXEMBOURG	445	(77)	585	(111)	31.5%
FRANCE	574	(68)	457	143	(20.4%)
GERMANY	960	124	757	217	(21.1%)
SWITZERLAND	865	349	820	262	(5.2%)
UNITED KINGDOM	9,820	4,432	10,372	3,390	5.6%
ASIA	**6,622**	**1,398**	**6,703**	**323**	**1.2%**
JAPAN	5,697	1,279	5,226	(142)	(8.3%)
"OTHER ASIA"	515	65	988	220	91.8%
TOTAL ALL COUNTRIES	**$23,820**	**$7,242**	**$23,948**	**$5,594**	**0.5%**

Source: U.S. Treasury



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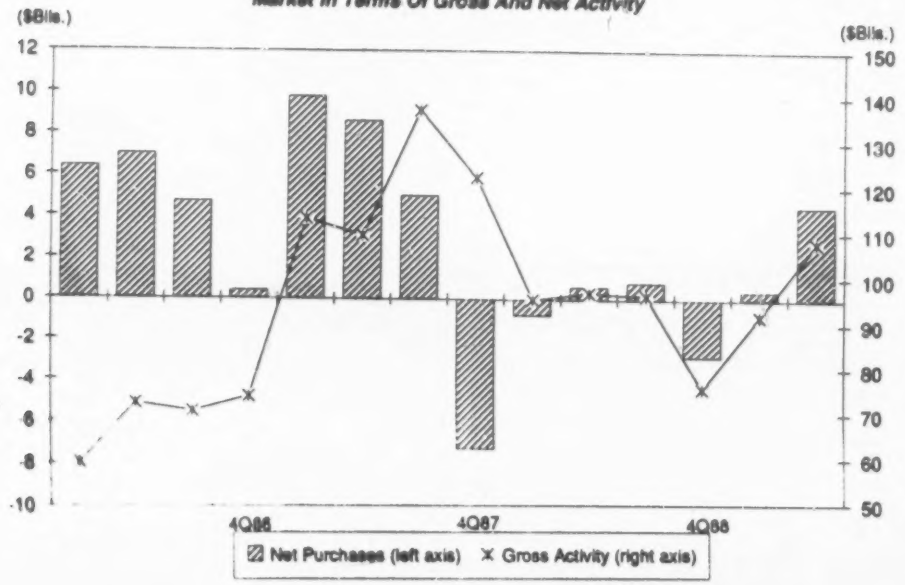
Foreign Investment: A Two Way Street

Foreign Investors Show Renewed Vigor....

It's almost like they never left. Foreign investors, after months of nibbling at U.S. equities, finally took a full bite in the second quarter, making net purchases of near $4.5 billion. Nearly $3.6 billion were made in June alone, a month which saw social upheaval in China, a cut in the U.S. prime rate, a monthly year-to-date high in NYSE share volume, and frenzied takeover activity. (Including offers by Paramount for Time, McCaw Cellular for LIN Broadcasting, and Wasserstein, Perella and A&P for the U.K.'s Gateway.)

Foreign Investors Return To The U.S. Equity Market In Terms Of Gross And Net Activity



The sharp increase in net activity was accompanied by renewed strength in gross activity. Foreign investors bought and sold over $107 billion in U.S. equities in the second quarter, marking the first time in over a year that quarterly activity topped the $100 billion mark.

The U.K., Japan and OPEC accounted for slightly over 100% of net purchases and 43% of gross activity, by all countries.

Country of Investor	*2Q89 Net Purchases of U.S. Equities ($Mils.)*
Japan	$1,869
OPEC	1,539
U.K.	1,112
All others	(20)
Total	**$4,500**

Confidence in the U.S. economy and a relatively stable dollar, coupled with increasing U.S. equity prices, may signal continued interest in future months. Indeed, we suspect that these purchases were critical in increasing U.S. equity prices during the second quarter. But, recent moves by the G-7 to weaken the dollar may dampen the enthusiasm of foreign investors for U.S. equities, thereby weakening prices, which is consistent with recent trends in September.

While U.S. Investors Continue Their Return....

In the four-month period beginning October 1987, U.S. investors were net sellers of nearly $4.2 billion in foreign equities. This massive repatriation of funds, which exceeded any year's commitment to overseas equity markets, convinced many observers that U.S. investors' return to overseas markets would be a long time coming.

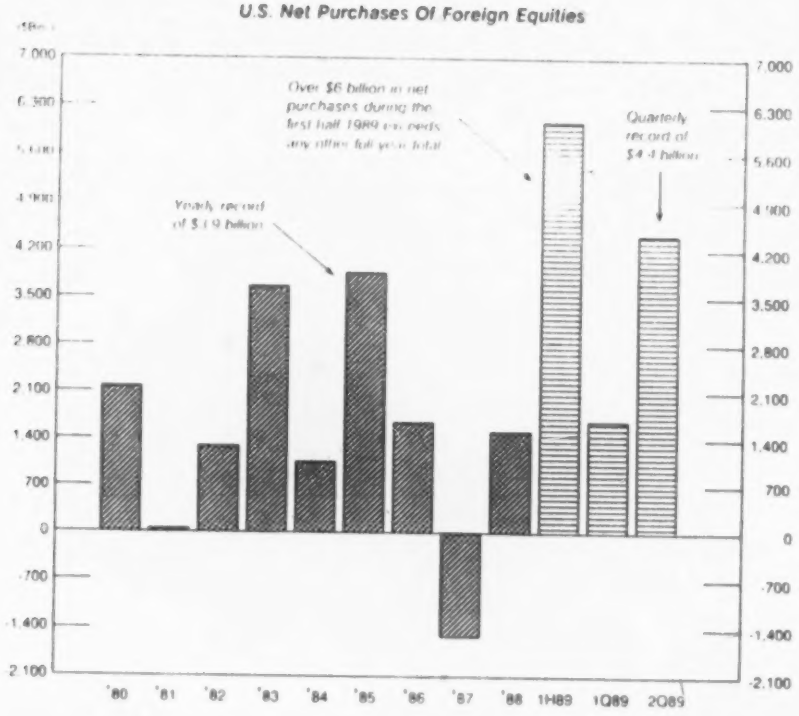
Yet, U.S. investors have subsequently returned to overseas equity markets with such force that even the biggest optimist must be shocked. Since February 1988, U.S. investors have made net purchases of over $8.2 billion in foreign equities. Indeed, U.S. investors have not missed a beat, making net purchases in 13 consecutive months (June 1988-June 1989) totalling $8.1 billion.

And Set New Records During the 1H 1989

Net purchases of foreign equities totalled nearly $6.1 billion during the 1H89, with the record $4.4 billion made in the second quarter alone exceeding any previous full year total. Looked at slightly differently, U.S. investors have averaged net purchases of over $1 billion per month in 1989; in contrast, the record for any previous full year was $3.9 billion (or an average of $325 million per month).

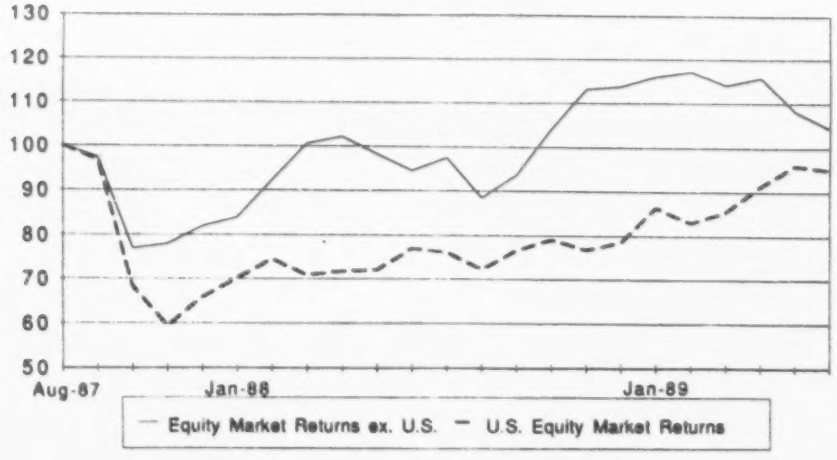
The U.S. return to foreign equity markets may have been an epiphany of sorts; a realization that foreign equity markets, as a whole, shook off the effects of the crash much more quickly than the U.S. equity market. For example, foreign markets rose to pre-crash levels (in dollar terms) in merely five months. In contrast, during this period U.S. equities recovered only 2.5%. So, after missing the first big move overseas, U.S. investors have taken part in the latest surge. And a good thing: by the end of June 1989, overseas equity markets had out-performed the U.S. market. However, the graph below indicates that while U.S. equity returns continue to lag those of foreign markets, the gap is steadily closing.

U.S. Net Purchases Of Foreign Equities



While the recent surge in U.S. equity prices will no doubt draw funds which would have been earmarked for foreign equities, we believe the outlook for continued overseas investment is a positive one. The path toward Europe 1992 may lead U.S. investors to up their European equity commitment in hopes of finding the winners. Moreover, the increased sophistication of investors with respect to futures and options may also lessen any risk of currency losses, removing a significant barrier to overseas investment.

Overseas Equity Market Returns vs. U.S.
(August 1987 = 100)



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